

May 19, 2014

TO: Mayor and City Council
From: Nancy Brewer, Finance Director *NB*
SUBJECT: **Hotel Development Financial Possibilities**

Attached is staff's best estimate of the revenues and expenditures the City may incur associated with the parking garage at the hotel. The projections have been based on both 60% and 80% occupancy of the hotel as likely scenarios. There are, of course, some broad assumptions that have to be made with this kind of project where the City really has no experience:

- The Transient Room Tax (TRT) revenue projections assume immediate occupancy. In truth, we would expect the first year occupancy to be on the low side as it will take time to get rooms booked, and it may be a couple of years before we would expect to see more total rooms booked in Corvallis overall.
- The TRT revenue projection is also static – it does not assume any increase in room rates, though realistically, we would expect to see 2% to 5% annual increases in rates along with other hotels in town.
- The property tax piece is likely a pretty good estimate of the City's costs for owning the garage. For the land piece, the total bill is probably pretty close, but staff does not have a "footprint" estimate for the portion that would be assigned to the garage. 30% was used as an estimate.
- The property tax revenue is included in this analysis, but is also already built into the financial plan as part of the overall "new development" that would be added to the tax rolls. As a result, the total impact is shown both with and without the property tax revenue.
- The Debt Service number is currently based on a 25 year amortization schedule; the amortization period could be pushed to 30 years which would decrease the annual payment, but increase the total debt service.
- The General Fund subsidy is shown as a possible range from a net positive \$7,000 to a net subsidy of \$129,000. Staff has the ability to track the revenues from this project against the expenses and "re-pay" any General Fund advance from future TRT revenue.

City's Financials Related to the Potential Downtown Hotel Parking Garage

Revenue/(expenses)	Data	60% Occupancy	80% Occupancy
Total number of rooms	121		
Cost per night	115		
Hotel Revenue per night (100% occupancy)	13,915		
Hotel Revenue per year (100% occupancy)	5,078,975		
TRT Total (9% of revenue for the year)	457,108	274,265	365,686
Less 30% of TRT to Corvallis Tourism		(82,279)	(109,706)
Lease payments from the hotel		70,000	70,000
Property Taxes (building): *			
Hotel pays:			
Likely RMV	15,800,000		
Likely AV (commercial CPR 60%)	9,480,000		
Total Tax Bill (rate = \$17.9982)	170,623		
Tax Revenue to the City (\$5.1067)	48,412	48,412	48,412
Parking Garage Pays:			
Likely RMV	7,200,000		
Likely AV (commercial replacement CPR 60%)	4,320,000		
Total Tax Bill (rate = \$17.9982)	77,752		
Tax Revenue to the City (\$5.1067)	22,061	22,061	22,061
Total Taxes Paid by the City (82.6% owner)	64,223	(64,223)	(64,223)
Total Taxes paid by Others (17.3% owner)	13,529		
Property Taxes (Land - Current AV 322,392):			
Likely AV at development (3% annual growth)	342,026		
Total Tax Bill (Rate = \$17.9982)	6,156		
Tax revenue to the City (\$5.1067)	1,747	1,747	1,747
Total Taxes Paid by the City (30% owner)	1,847	(1,847)	(1,847)
Total taxes paid by the Others (60% owner)	3,694		
Debt Service		(325,000)	(325,000)
Total/Net		(56,866)	7,129
Total/Net without property tax revenue, which is already assumed as part of regular new value in the financial plan.		(129,085)	(65,090)

Notes:

The Assessor's Office reports that they will likely use the income method to determine the property taxes for the hotel and parking garage. City staff has no experience with this methodology, and in fact the determination of value depends on factors which the City does not have access to. The Data in this table reflects the likely property taxes if the standard real estate practice of using Changed Property Ratio applied to real market value is used. The Assessor's office is working on a tax estimate which should give us better information on both revenue to the City and costs.